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SC No. 08615/61

INDUSTRIAL PROBLEMS IN COMMUNIST CHINA

Although problems of information and analysis make conclusions difficult, it appears that Chinese industrial production in 1961 may be no higher than that of 1960, which was moderately above the level of 1959. Information on current production declines, stoppages, and related problems in China's industry is still scattered and incomplete (specific reports are gisted in an appendix to this report). It is believed, however, that these reports reliably reflect the cumulative effect of general economic difficulties brought on by the excesses of the "leap forward," two successive years of poor crops, widespread food shortages, the withdrawal of Soviet industrial technicians in mid-1960, and generally inept party planning and leadership.

By trying to go too far too fast Peiping put industry under strains and imbalances which made coordination of production increasingly difficult. In overworking its labor force and abusing its machinery the regime created conditions leading to extensive machinery breakdowns and a slump in worker enthusiasm. A significant but as yet incalculable factor in present industrial problems is the effect of malnutrition and lowered caloric intake, not merely on the morale of the working force, but on its physical ability to carry out a full work load. It appears that this is having its worst effect in those sectors with a high labor input such as the extractive industries.

Reports of production stoppages in certain of Communist China's industrial plants have ascribed the difficulties to shortages of raw materials and fuel. As the most important fuel in China, coal has been repeatedly cited in these reports as a cause for production stoppages. Although information is not available to refute or to confirm Peiping's claims of producing 425 million tons of coal in 1960; it is clear that gross production figures grossly overstate the calorific value available in the form of energy. Claimed output in 1960, expressed in units of energy, represented about 300 million tons of standard fuel based on an estimate of the average heat content of Chinese coal. Coal accounts for more than 95 percent of the total production of energy in China, compared to 60 percent in the USSR, but even the claimed production in 1960 was equivalent to little more than one-half ton per capita, compared to Soviet production of 2.5 tons per capita. In terms of China's needs, however, production in 1960 should have been sufficient if adequately distributed.

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The forwarding of uncleaned coal from the mines--ash content may run about 25 percent--not only puts a heavy burden on the transport system, but also disrupts those industrial processes which require consistent standards of quality in their fuel. Many reports, in fact, cite complaints of the low quality of the coal rather than inadequate quantities. The regime's attempt to correct this problem by expansion of coal cleaning facilities may now be stalled by the cutback in industrial construction.

Because coal mines in China are still far from being mechanized, the efficiency of the labor force has an important bearing on any evaluation of the coal industry. The voluminous reports on food shortages in China imply a decline in productivity in partially all labor-intensive industries, even though heavy industry has been receiving preferential rations for its workers. The effects of extensive malnutrition on the working force have even been acknowledged by the government in an order to ease excessive work burdens on food-short workers by shortening hours and reducing time spent in political meetings. Morale has been affected adversely by the government's failure to fulfill its grandiose promises of the "leap forward," or even to maintain the previously existing low standards of living.

The consequences of worker disenchantment are difficult to calculate in terms of production and efficiency of distribution. But available reports clearly suggest that health problems in 1960 and 1961 have slowed production through absenteeism and reduced efficiency on the job. Among extractive industries dependent on a high level of labor inputs, it seems safe to assume that the output of coal and iron ore mines, as well as the loading and distribution of the product, are lagging.

Appendix

Examples of recent reports indicating industrial disruptions:

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2. The first firm evidence of actual declines in specific industrial sectors comes from analysis [redacted] production of freight cars in the final quarter of 1960 dropped to one-third of the monthly rate during the first half of the year. Production in the Changchun No. 1 Motor Vehicle Plant declined in 1960 despite the official plan

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to boost output by 50 percent over 1959. Repeated reports from Changchun have cited delays in production caused by shortages of materials. [REDACTED] 25X1X

3. [REDACTED] a Canton steel plant confirmed that on 26 June workers were told at a factory meeting that because of "acute shortage of iron ore and coal" workers were to return to rural areas. On 29 June, 4,000 workers (half the factory's labor force) were laid off. [REDACTED] 25X1X
25X1A

4. [REDACTED] the important Tangshan Cement Plant in Hopei reported that 1961 production was "practically nil" [REDACTED] in May. [REDACTED] a shortage of low-ash-content coal as the primary reason for the stoppages and also indicated a high rate of absenteeism among the workers because of illnesses believed to have been caused by malnutrition. [REDACTED] 25X1X
25X1X

5. [REDACTED] the Amoy Second Machinery and Equipment Plant reported that it was idle two or three days each month in late 1960 because of "lack of coke, coal, iron and electric power." [REDACTED] 25X1A
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6. [REDACTED] shortages in the spring of 1961 of "raw materials such as pig iron, coke, and steel" resulted in the lay-off of workers at his machine factory. [REDACTED] 25X1A
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7. The manager of the Wuhan Iron and Steel Plant--planned to be one of China's largest--told a group of foreign diplomats in May that production was being interrupted by a failure to receive raw materials. [REDACTED] 25X1A

8. An editorial in the Nanking Hsinhua Daily said on 29 July that the current major problem in industry was an "insufficient supply of raw materials and fuel." [REDACTED] 25X1A

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CIA/ORR

7 August 1961

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